

III. SUPREME COURT DEVELOPMENTS

In recent months, there have been a number of important Supreme Court decisions relating to patent and the Federal Circuit's jurisprudence on certain issues, including claim construction. We discuss these cases here. We can also recommend that the reader consult Bob Taylor's excellent work, *The Supreme Court's Expanding Footprint on Patent Law*, for a review of all of the cases decided in the 2014 term.⁶³

A. Review of Claim Construction Decisions

Since the 1998 decision in *Cybor Corp. v. FAS Technologies*⁶⁴ the Federal Circuit has applied a rule that claim construction is reviewed *de novo* on appeal. In the intervening years, a large amount of dissatisfaction has been voiced over the *de novo* rule, with the dominant criticism being that the rule fostered uncertainty in the litigation process because the reversal rate for district court claim constructions was very high.

The Federal Circuit revisited the correctness of that rule and re-affirmed the *de novo* rule in *Lightning Ballast Control, LLC v. Philips Electronics North Amer. Corp.*⁶⁵ In *Lightning Ballast*, a deeply divided court decided 6-4 to retain the *de novo* standard of review. Judge Newman, writing for the majority, found that principles of *stare decisis*, argued to retain the *de novo* rule to provide national uniformity, consistency, and finality to the meaning and scope of patent claims.⁶⁶ The dissent, written by Judge O'Malley, who was a very good district court judge before being appointed to the CAFC, argued at length that claim construction often entails some degree of fact finding, and that when fact finding occurs the rules of civil procedure require that the Federal Circuit accord deference to the district court's fact finding.

The dissenters did not have to wait long for their views to be adopted by the Supreme Court. In *Teva Pharmaceuticals USA v. Sandoz*, the Supreme Court addressed and modified the Federal Circuit's procedure for review of claim construction rulings.⁶⁷ The Court held that in reviewing subsidiary factual determinations made in the course of a claim construction, the Federal Circuit must apply the "clearly erroneous" test in Fed.R.Civ.P 52(a)(6).

The Court held that there are no exceptions or excluded fact finding that is not covered by Rule 52 and noted that it was not inclined create one for claim construction. The Court rejected the argument that *Markman v. Westview Instruments, Inc.*⁶⁸ mandated *de*

novo review, finding that while *Markman* held that claim construction is for the court, this did not have any impact on the scope of review of district court fact finding. The Court instructed that, after giving appropriate deference to any fact finding made by the district court, the ultimate question of what a claim term means in patent is a legal issue subject to de novo review. The parties also agreed, and the Court held, that when there are no factual determinations made by the district court as part of the Markman process, review of claim construction is under the de novo standard.

B. Other Supreme Court Decisions of Interest.

The Supreme Court reversed two cases from the Federal Circuit relating to the standard to be applied in determining whether a prevailing defendant is entitled to recover its attorney's fees under 35 U.S.C. § 285. The cases are *Icon Health & Fitness, Inc. v. Octane Fitness, LLC*⁶⁹ and *Highmark Inc. v. Allcare Health Management Systems*.⁷⁰

In *Highmark*, the patent in suit related to a health care management method that used a computer to determine when the insurer should approve a particular treatment for a particular patient, a process called a "utilization review." Highmark filed a declaratory judgment action seeking a declaration that the patent was invalid and not infringed. Allcare responded by counterclaiming for infringement. The district court granted summary judgment of non-infringement and the Federal Circuit affirmed.⁷¹ Highmark then moved to have the case deemed exceptional under Section 285 and the district court agreed.⁷² The district court found that Allcare's infringement position was frivolous and that Allcare had engaged in litigation misconduct by taking unjustified positions and making misrepresentations in connection with a motion to transfer. The district court awarded Highmark \$4.7 million in fees and \$775,000 in expenses.

The Federal Circuit reversed in part. The Federal Circuit's standard for the award of attorney's fees to a prevailing defendant is well established. Under 35 U.S.C. § 285, a "court in exceptional cases may award reasonable attorney fees to the prevailing party." Determining whether to award attorneys' fees under 35 U.S.C. § 285 entails two steps. First, a prevailing party must establish by clear and convincing evidence that the case is "exceptional."⁷³ A case can be exceptional if it involves a frivolous claim, inequitable conduct before the PTO, or litigation misconduct.⁷⁴ Second, if the case is exceptional, the court must determine whether to award of attorneys'